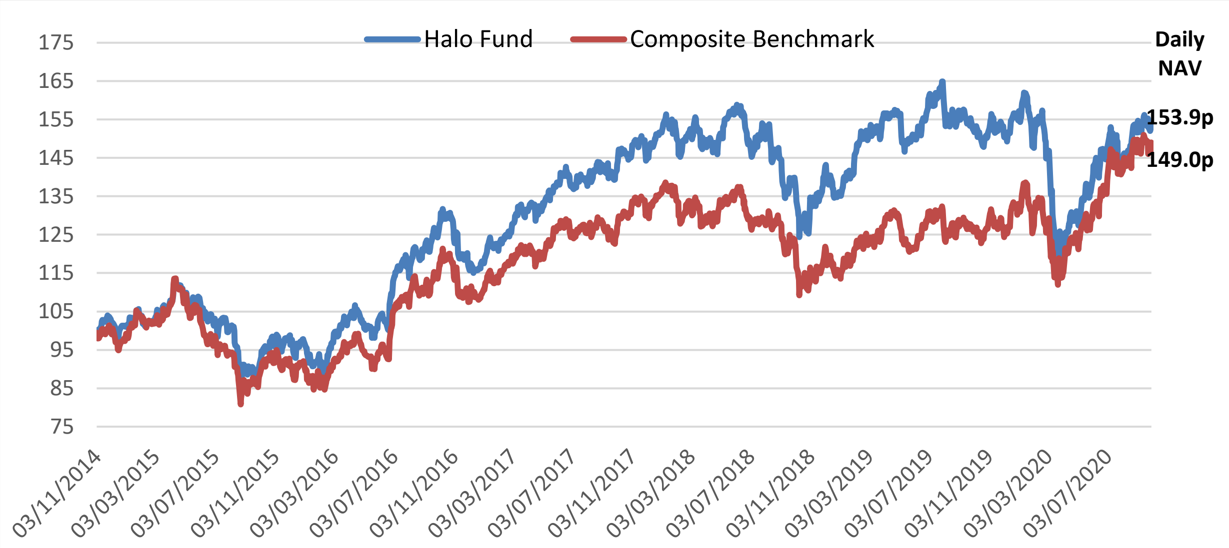
VT HALO Global Asian Consumer Fund

September 2020 Quarterly Letter

The third quarter continued where the second quarter left off, with markets in Asia continuing to rally led by North Asia, as these economies appeared to be on the path to recovery post the initial outbreak of Covid. The Fund was up 5.7% principally due to our Chinese holdings, both those in the consumer internet space, as well as in areas seeing structural growth, such as health and wellness and education. The Fund unit price is back to where it was at the beginning of the year, but this does mask some large discrepancies between the performance of markets within Asia this year, a point I wish to discuss in the rest of this letter.



Performance data shown is of the B £ Net Acc. share class. Custom Benchmark, 30% MSCI AC Asia ex Jap Consumer Staples, 30% MSCI AC Asia ex Jap Consumer Discretionary, 10% MSCI Communication Services and 30% MSCI AC Asia ex Japan Index. From 01/12/18 Custom Benchmark reduced Consumer Discretionary to 30% and added 10% Communication Services, due to reclassification by MSCI. Past performance is not a guarantee of future returns. Data from Valu-Trac Administration Services and Reuters. This is for illustrative purposes only and in accordance with our Prospectus Halo does not benchmark against any index in accordance with our Information Memorandum and Prospectus.

Below is a table showing stock market performance in various Asian countries together with earnings forecasts for 2020 and 2021 and GDP growth expectations.

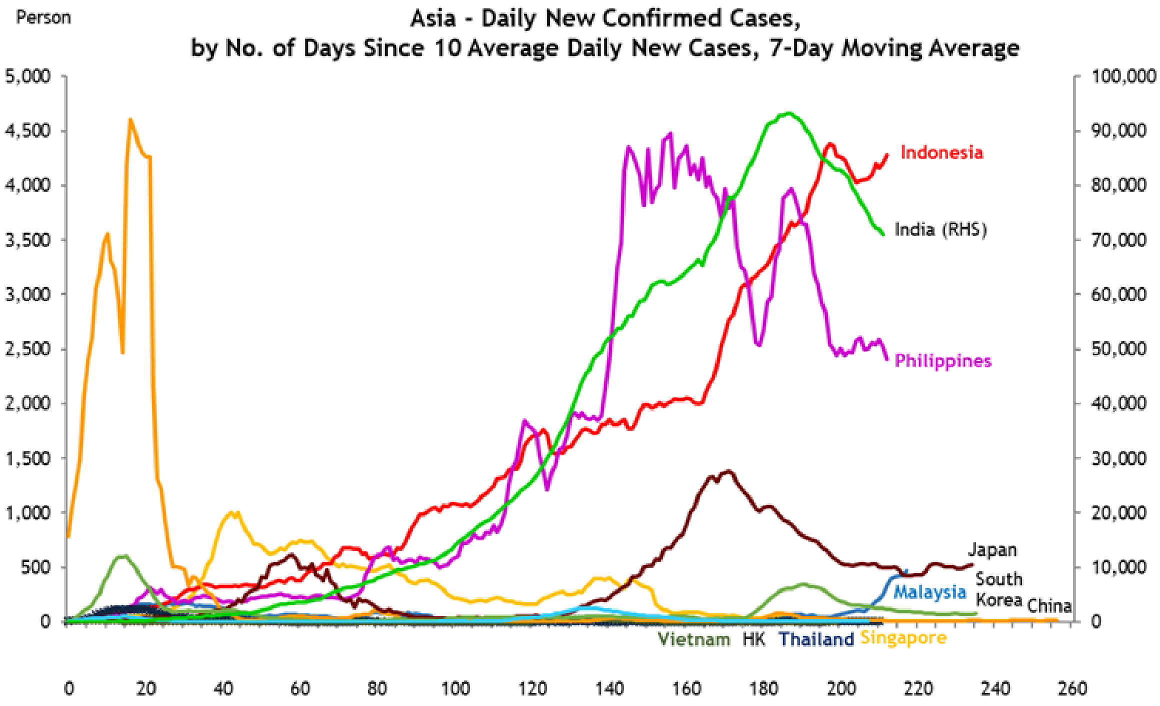
Country	Market Performance to 30/09/20	Earnings forecast for 2020	Earnings forecast for 2021	GDP growth forecast 2020	GDP growth forecast 2021
	%	%	%	%	%
China	12.0	2.2	19.8	2.5	10
South Korea	6.0	19.3	41.9	-1.0	3.9
Taiwan	4.3	11.8	13.7	0.5	3.3
India	-7.3	-9.0	42.4	-8.0	8.5
Indonesia	-22.7	-28.1	32.8	-3.5	5.5
Philippines	-25.0	-36.1	39.7	-7.6	7.4
Thailand	-21.7	-33.9	30.9	-8.0	5.8
Vietnam	-13.0	-13.3	29.1	3.0	7.9

Source Bloomberg

Based on the earnings growth and stock market performances this year, the simplistic analysis concludes there appears to be a high correlation with those countries being able to deliver positive earnings growth this year have seen positive stock market returns. Those with negative growth have seen corresponding negative returns. The key question is why has North Asia done so much better this year than ASEAN? Will ASEAN earnings bounce back as expected next year and if so, will their stock markets follow?

The key difference has been the handling of Covid and the severity of the lock downs. With South Korea managing to avoid lock downs altogether, China only spending a few weeks back in February and subsequently controlling the virus outbreak. The other factor is these economies contain strong manufacturing bases and particularly tech hardware, which have benefitted from increased demand for technology products as we reshape our lives at home. They have established ecommerce and online services, which enables the population to continue to work and shop from one's home. Covid has temporarily halted industries that require face to face contact such as the tourism industry. It just so happens ASEAN nations are key tourist destinations, both for Asians and Westerners alike and this has had a marked effect on some of these economies.

ASEAN infection rates have been worse than North Asia due to two key reasons. Firstly, poorly functioning government organisations failed to implement an efficient test and trace system and halt the spread before it reached the wider community. Secondly with a large migrant workforce it has been harder to encourage people to stay at home, with no social safety net and the need to work to feed oneself and the family. These workers have had little choice but to put money before health. But in the last few months we have witnessed easing restrictions on mobility as the number of Covid cases has started to fall, (see below) and are considerably less than anything in Europe, with only India confirming cases above 10,000 per day. Hospitalisations are down, a key factor for these governments, as capacity to handle severe cases means they can ease the restrictions on movement and these countries learn to live with the virus. Stock markets though have continued to see foreigners net selling every week and have all seen substantial outflows this year including the third quarter.



Source Maybank KE, World Health Organisation

In areas such as leisure and tourism we have reduced our exposure as we struggle to see how international tourists will come back to any meaningful levels over the next 18 months. For countries such as Thailand, whose main industry is tourism, with its contribution estimated to be 12% of GDP, not including the trickle-down effect to other areas of the economy, the ability to recover next year is perhaps more limited. Our focus has thus been on other areas of ASEAN, namely Philippines and Vietnam.

Philippines

The Philippines has been in and out of Enhanced Community Quarantine (ECQ), which I would refer to as close to a full lockdown. Under the ECQ residents are restricted from travelling to other cities, with limitations on all forms of transportation, closure of non-essential businesses and cancellation of mass gatherings. It was imposed in March and in May reduced to a General Community Quarantine, where public transportation is allowed at a reduced capacity and select businesses allowed to operate at 50-100% of regular capacity. In August they reimposed the ECQ as Covid cases rose again in Metro Manila and eased it back to the GCQ towards the end of August. This on off stance since March has severely hurt consumer sentiment and impacted many livelihoods.

Today though as cases have declined and bed capacity in hospitals is significantly higher the government is more focused on getting the economy back on its feet and the population working again. Construction workers are back on site, shopping malls have reopened and are seeing 30-50% footfall compared to pre Covid levels, public transport is operating, albeit not at full capacity and restaurants are fully open. Other positives have been its two biggest industries, namely Business Processing Outsourcing or BPOs, have remained resilient and demand for their services continue to grow. The large employer and hard currency earner are overseas remittances, which in the last couple of months have been stronger than one would expect given the economic impact in the rest of the world. We shall have to wait and see if these were an aberration or we continue to see growth in remittances into the key Christmas period. This points to the possibility of a consumption recovery in Q4 and into 2021. Markets though are certainly not pricing any sort of recovery into their forecasts as share prices of companies exposed to discretionary expenditure remain substantially below 2019 levels. Indeed, it is likely to take a couple of years for GDP to recover to 2019 levels. If this does occur then it certainly would be fair to expect market to recover at some point in 2002 to the same level at the end of 2019. For the Consumer Discretionary sector and other consumption proxies this would provide in many cases 60-100% upside to their current share prices, a very healthy return over a two year period. Obviously not all stocks will do this and our role is to identify the companies that have a very high probability of providing these returns and start to build appropriate positions.

One company where we have started to do this is Allhome, a DIY retailer. The shares themselves have fallen from PHP11 down to PHP6 today. We have spoken to the management who have indicated their sales have recovered to over 90% of pre COVID levels in June through to September this year and DIY stores across the world have proved to be beneficiaries of being forced to spend more time at home. Management are confident of seeing same store sales growth exceed last year's levels in the fourth quarter of this year and are now opening new stores having not done so for the last 6 months. Earnings forecasts for 2021 are expected to reach the same level as 2019 and if a vaccine becomes available life can return to some sort of normality. We expect their profits will be substantially above 2019 levels in 2022. If the shares achieve PHP 11 by the end of next year, based on current forecasts, this would put them on a forward PE of 20 times. Their peer group in ASEAN today trades closer to

30x and this discount is down to this company having a shorter track record. Thus we think it is not unreasonable to expect some strong returns if we are correct in its outlook.

We are also reviewing a few other Philippine names and since there is no certainty in the world at the moment we will add in increments as more evidence becomes available that the country is on an upward trajectory.

Vietnam

The country has had a markedly different experience with Covid, like China's. Given its general distrust of its large northern neighbour they shut their borders to China early on in February, which probably saved them from any major infection and suspended entry of all foreigners on 22nd March. Despite inferior economic and technological capacities, the country's response to the outbreak has received acclaim for its immediacy, effectiveness and transparency. The economy has avoided recession and thanks to strong demand in the large manufacturing sector and good production in the agricultural sector, Vietnam's current account surplus is heading for a record, at $17bn, some 6% of GDP for the first 9 month of this year, compared to $7.3bn last year. Consumer confidence has taken a hit as wage growth which had been running between 5-10% pa has been flat in the first half of the year, but we are now hearing wages are starting to climb again as unemployment has fallen back below 2.5% again. The stock market took a different tack principally driven by consistent foreign selling throughout this year, with the market at its lows down some 31%. The market has recovered somewhat since then and at the end of September was down 5.7%. So one might think there is little upside from here. Consensus forecasts are for earnings to fall 13% this year and rise 29% next year, resulting in earnings to be 13% above 2019 levels by the end of 2021. This broadly matches the growth expectations of GDP. GDP is set to climb 3% this year and 8% next year, delivering 11% growth over the two years, a bit below its recent average of 6.5-7.0% growth per annum.

The stocks we own have fallen faster than their earnings downgrades for this year. Indeed Techcom Bank is expected to deliver over 10% EPS growth this year, yet the shares are down over 10% since the start of the year. Mortgage demand continues to remain robust and at the end of 2021 profits are likely to be 30% higher than 2019 levels. We also added to PNJ, the jewellery retailer, who saw profits collapse in March and April due to the lockdown, but recovered strongly since then and it appears September could well deliver over 10% sales growth year on year. Earnings will decline in 2020 by low teens, due to the lockdown impact but again we would expect some 30% profit growth next year, due to easy comparatives and positive sales numbers compared to 2020. The shares today remain 28% below the end of 2019 levels, even with expectations of 2021 profits being 13% above 2019, which provides plenty of upside over the next 12 months.

This is typical of many stocks in our universe and investor nervousness today leaves a lot of mispriced companies in ASEAN. In our opinion, investors will only come back to these markets when restrictions of movement have been curtailed, consumer confidence is repaired and they can see marked improvements in profitability. The markets themselves will move before we see these hard facts, as markets anticipate and so we wish to increase our exposure to ASEAN now and over the rest of this year, in expectation of a markedly improved outlook as we progress through 2021.

Conclusion

The Fund has recovered and as I write is now above the level at the start of the year. This has been driven by our holdings in China, where we are invested in some structural growth areas such as the consumer internet names, education, health, wellness and fitness. These have all performed exceptionally well this year and have recently been making new highs and enabling the Fund to recover. As we now expect our holdings outside China to see a rebound in revenue and profits in 2021, we would expect the profit growth for the Fund to be above 20% next year and the forward PE multiple of the Fund, which currently sits at 16.4x to fall below its long run average of 15.2x, so providing further upside to the unit price over the next 12 months.